The ISE Group plc

Directors' report and financial statements

31 December 1998
Registered number 2495645

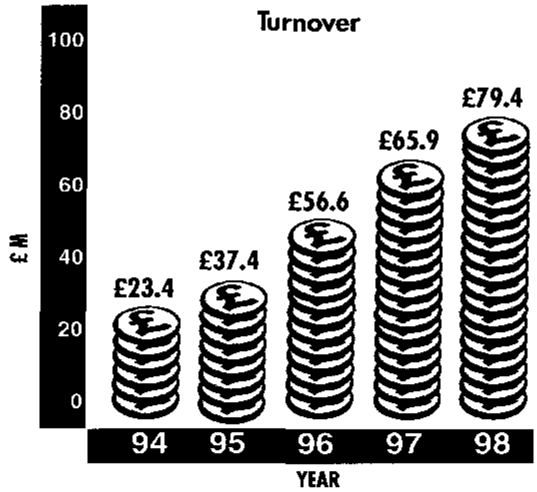
Directors' report and financial statements

Contents

POUNDLAND

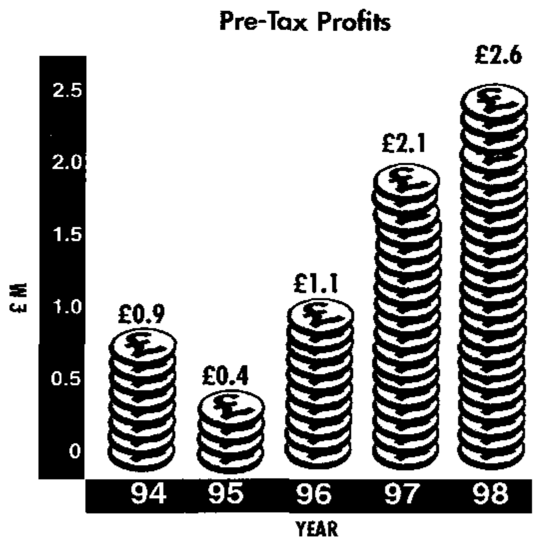
GROUP OVERVIEW 1998

It is pleasing to report another successful year of trading. Turnover increased by 20.6% to £79.4m (1997 £65.9m) again supported by a strong increase in sales from like for like stores of 10.4% (1997 8.7%).



Gross margin continued to increase with a further gain of 1.2 percentage points to 33.5% (1997 32.3%), providing a margin enhancement of £0.9m. It is extremely pleasing to have achieved this improvement in margin, whilst offering our best ever range of merchandise.

In another year during which we have invested in the strengthening of our infrastructure to facilitate future growth, it is very pleasing to report that profits have risen by 24.1% to £2.6m (1997 £2.1m).



Interest cover has increased to 22.7 times (1997 10 times), which provides the business with improved financial flexibility enabling us to take advantage of more of the opportunities presented by the market place.

We are also pleased to highlight that our effective rate of corporation tax has reduced to 35.8% from 41.2% for 1997. Finally in financial terms, our net asset value has increased by 53.5% to £4.7m (1997 £3.1m).

Our links with overseas manufacturers have continued to mature with 26% of our product being direct imports. This percentage is expected to rise to 33% for 1999.

Focus on supply chain management improved our stock turn and new range management controls have enhanced product service levels.

Our relationships with leading brand manufacturers continued to develop, with most manufacturers being willing to produce products exclusive to ourselves.

The performance of our concept has continued to improve and the economies of scale provided by increased buying power continue to add value to our merchandise consolidating our lead over competing retailers.

During 1998, attention was given to the refinement of our shopfit and corporate style resulting in the creation of a new "*millennium shopfit*" *which features improved finishes, innovative signage and more creative merchandising and displays.*

The "millennium shopfit" was successfully introduced in our new store in Liverpool to widespread acclaim of both landlords and customers and forms the cornerstone of our future growth plans.

During 1999, our Everything's £1 stores will be converted to Poundland fascias and a programme of refurbishment will ensure that a consistent corporate message will be presented to our customers.

The development of a three year strategy which focuses on the opening of 34 Poundland stores in high quality trading locations, has empowered our business with a clear sense of purpose, and our new shopfit has ensured that we complement the highest calibre of tenant mix.

During 1998, we began the recruitment of key personnel, necessary to strengthen our infrastructure and to support our growth in 1999 and beyond. Some management functions have been re-defined and a new function, "Management Information Services" is charged with the responsibility of challenging the way that we do things and providing pertinent, succinct reporting on key result areas such as product margin and range management. Utilising a data warehouse system in conjunction with the very latest reporting software, early indications are that with the right analyses, we can make adjustments to our range instore at product level, generating improvements to our average customer sale.

Our policy of developing people encouraged us to commit to the attainment of an "Investors In People" accreditation.
The programme is now underway, and we are confident that the disciplines and philosophies that the accreditation embraces will help us become a better business with improved communication and team spirit. Unprecedented focus on recruitment and training will we feel help improve staff retention and performance.

1998 was our 8th full year of trading. Poundland is now an established business with potential for growth and refinement. We are confident that despite our success, our performance on all fronts can be significantly improved.

We are proud to have been recognised once again by the Europe's 500 1998 Honorary Listing as one of the most successful privately owned businesses in Europe. Our aim for our next stage of development is to raise the awareness of the Poundland brand, trade only from stores bearing the Poundland fascia and to exceed £250 million gross turnover before 2002.

D. P. Dodd
Director

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

Principal activity and business review

The principal activity of the group was that of homeware and toy retailers. Future developments are likely to be in the same field. Information in respect of the development of the business during the year and of the position of the group at the year end can be found in the Group Overview on pages 2 and 3.

On 1 July 1998, the group acquired 75% of the issued share capital of M&O Business Systems Limited. On 28 September 1998 the group acquired 100% of the issued share capital of Sheptonview Limited.

Results and dividends

The results for the year are set out on page 8.

The directors do not recommend the payment of a dividend *(1997: £Nil)*. All retained profits are transferred to reserves.

Directors and directors' interests

The directors of the company during the year and their interests in the shares of the company as recorded in the register of directors' interests were as follows:

	Ordinary shares of £1 each in The ISE Group plc	
	31 December 1998	31 December 1997 or at date of appointment
SK Smith	**24,500**	24,500
DP Dodd	**Nil**	Nil
G Oldridge	**Nil**	Nil
M Cordell * (appointed 1 April 1999)	**Nil**	Nil

* Non executive director

On 1 April 1999, DP Dodd was granted options over 7,500 ordinary £1 shares of the company.

Employees

The company has developed and maintained arrangements whereby employees are consulted and provided with information about current activities and progress within the company and with training to improve the operational efficiency of the company.

The company supports the employment of disabled people wherever possible, through recruitment, by retention of those who become disabled during their employment and generally through training, career development and promotion, having regard to their particular aptitudes and abilities. It is company policy to provide equal employment opportunities without regard to race, religion, sex, national origin or age.

Directors' report *(continued)*

Supplier payment policy

Provided that a supplier is complying with the relevant terms and conditions, including prompt and complete submission of all specified documentation, payment will be made in accordance with these agreed terms. Group policy is to ensure that suppliers know the terms on which payment will take place at the time of entering a transaction. The Group does not follow any code or standard on payment practice.

Company trade creditors, expressed as the number of days of annual purchases, represented 38 days *(1997: 58 days)* at the year end.

Year 2000

A group wide programme to address the impact of the Year 2000 problem is well under way.

An analysis of significant risks has been performed to determine the impact of the issue on all activities. From this, action plans have been developed to ensure that all changes are successfully implemented in advance of critical dates.

The risk analysis also considers the impact on the group of Year 2000 related failures by significant suppliers. In appropriate cases formal assurance is being sought from these other parties.

Whilst it is not possible to fully quantify costs of the programme, it is not anticipated that this will have a material impact on the group financial statements.

While management believes that the group will be compliant for the Year 2000, it must be recognised that with a problem as large and complex as this, it is not possible to give any guarantees that no unforeseen problems will arise.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

TMSmith

Mrs T Smith
Secretary

The Meadows
Cannock Road
Wolverhampton
West Midlands
WV10 ORD

6 July 1999

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

KPMG

2 Cornwall Street
Birmingham B3 2DL

Report of the auditors to the members of The ISE Group plc

We have audited the financial statements on pages 8 to 27.

Respective responsibilities of directors and auditors

As described on page 6, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors
Birmingham

6 July 1999

Consolidated profit and loss account

for the year ended 31 December 1998

	Note	**1998** **£'000**	1997 £'000
Turnover	*2*	**79,449**	65,882
Cost of sales		**(52,841)**	(44,613)
Gross profit		**26,608**	21,269
Distribution costs		**(18,497)**	(15,209)
Administrative expenses		**(5,411)**	(3,749)
Operating profit	*3*	**2,700**	2,311
Interest receivable		**24**	38
Interest payable	*6*	**(143)**	(270)
Profit on ordinary activities before taxation		**2,581**	2,079
Tax on profit on ordinary activities	*7*	**(923)**	(857)
Profit on ordinary activities after taxation		**1,658**	1,222
Minority interests		**(4)**	-
Retained profit for the financial year		**1,654**	1,222

The notes on pages 13 to 27 form part of the financial statements.

Movements on reserves are shown in note 17 to the financial statements.

The reconciliation of movements in shareholders' funds is shown in note 18 to the financial statements.

Consolidated balance sheet
at 31 December 1998

	Note		1998		1997
		£'000	**£'000**	£'000	£'000
Fixed assets					
Tangible assets	*9*		**4,638**		4,604
Current assets					
Stocks	*11*	**5,209**		4,943	
Debtors	*12*	**2,876**		1,752	
Cash at bank and in hand		**3,135**		3,351	
		11,220		10,046	
Creditors: amounts falling due within one year	*13*	**(10,443)**		(10,621)	
Net current assets/(liabilities)			**777**		(575)
Total assets less current liabilities			**5,415**		4,029
Creditors: amounts falling due after more than one year	*14*		**(408)**		(720)
Provisions for liabilities and charges	*15*		**(258)**		(216)
Net assets			**4,749**		3,093
Capital and reserves					
Called up share capital	*16*	**13**		13	
Profit and loss account	*17*	**4,733**		3,080	
Equity shareholders' funds	*18*	**4,746**		3,093	
Minority interests	*19*	**3**		-	
			4,749		3,093

These financial statements were approved by the board of directors on 6 July 1999 and signed on its behalf by:

SK Smith
Director

Company balance sheet
at 31 December 1998

	Note		1998		1997
		£'000	**£'000**	£'000	£'000
Fixed assets					
Tangible assets	9		**4,616**		4,591
Investments	10		**168**		-
			4,784		4,591
Current assets					
Stocks	*11*	**5,243**		4,974	
Debtors	*12*	**2,909**		1,805	
Cash at bank and in hand		**2,934**		3,207	
		11,086		9,986	
Creditors: amounts falling due within one year	*13*	**(10,572)**		(10,603)	
Net current assets/(liabilities)			**514**		(617)
Total assets less current liabilities			**5,298**		3,974
Creditors: amounts falling due after more than one year	*14*		**(488)**		(720)
Provisions for liabilities and charges	*15*		**(271)**		(226)
Net assets			**4,539**		3,028
Capital and reserves					
Called up share capital	*16*		**13**		13
Profit and loss account	*17*		**4,526**		3,015
Total equity shareholders' funds	*18*		**4,539**		3,028

The parent company made a profit £1,511,000 for the financial year *(1997: £1,167,000).*

These financial statements were approved by the board of directors on 6 July 1999 and signed on its behalf by:

SK Smith
Director

Consolidated cash flow statement

for the year ended 31 December 1998

	Note	1998 £'000	1997 £'000
Net cash inflow from operating activities	21	**2,355**	3,587
Returns on investments and servicing of finance	22	**(119)**	(232)
Corporation tax paid		**(769)**	(489)
Capital expenditure	22	**(1,178)**	(1,080)
Acquisitions	22	**(80)**	-
		209	1,786
Financing activities	22	**(425)**	(341)
(Decrease)/increase in cash		**(216)**	1,445

Reconciliation of net cash flow to movement in net funds (note 23)

	1998 £'000	1998 £'000	1997 £'000	1997 £'000
(Decrease)/increase in cash in the period	**(216)**		1,445	
Cash repaying mortgage	**24**		23	
Decrease in finance leases	**144**		211	
Decrease in secured loan	**257**		107	
Change in net debt		**209**		1,786
Net funds at beginning of year		**2,652**		866
Net funds at end of year		**2,861**		2,652

Statement of total recognised gains and losses

	1998	1997
	£000	£000
Profit for the financial year	**1,654**	1,222
Currency translation difference on foreign currency investment	**(1)**	-
Total gains and losses relating to the year	**1,653**	1,222

Notes

(forming part of the financial statements)

Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements:

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

Basis of consolidation

The group financial statements consolidate those of the company and its subsidiary undertakings made up to 31 December 1998. Subsidiary undertakings acquired are accounted for using the acquisition accounting methods.

In accordance with Section 230 (4) of the Companies Act 1985 The ISE Group plc is exempt from the requirement to present its own profit and loss account.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised within fixed assets and amortised on a straight line basis over its estimated useful economic life.

Investments

In the company's balance sheet investments in subsidiary undertakings are stated at cost less amounts written off.

Turnover

Turnover represents the invoiced amounts of goods sold, excluding VAT.

Fixed assets and depreciation

Depreciation on fixed assets is calculated so as to write off the cost less the estimated residual value of all fixed assets over their estimated useful lives as follows:

Leasehold property	Over the term of the lease
Property improvements	10-15% straight line
Plant and equipment	15-33% straight line
Motor vehicles	25% straight line
Fixtures and fittings	15% straight line

All leasehold properties are held on short term leases of between two and thirty five years.

No depreciation is provided on freehold properties. It is the group's practice to maintain its freehold properties in good condition, costs of repairs and maintenance being charged against revenue in the year on which they are incurred. The directors are of the opinion that, having regard to the estimated residual values (based on prices prevailing at the dates of acquisition) and the estimated useful economic lives, any depreciation involved would not be material. Any permanent diminution in value of such properties is charged to the profit and loss account.

Notes *(continued)*

Principal accounting policies *(continued)*

Stocks

Stocks are valued at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date, or if appropriate, at the forward contract rate, and the gains and losses on translation are included in the profit and loss account.

The overseas subsidiary undertaking's profit and loss account and balance sheet is translated using the rate of exchange ruling at the balance sheet date.

Finance leases and hire purchase contracts

Assets acquired under finance leases and similar hire purchase contracts are recorded in the balance sheet as tangible fixed assets and are depreciated over their estimated useful lives or the terms of the leases, whichever is the shorter. Future instalments under such leases, net of finance charges, are included within creditors as obligations under finance leases. Rentals payable are apportioned between the finance element which is charged to the profit and loss account, and the capital element which reduces the outstanding obligations for future instalments.

Operating leases

All other leases are operating leases. Amounts payable under operating leases are charged to the profit and loss account on a straight line basis over the lives of the leases.

Pensions

The group operates a defined contribution pension scheme for certain of its employees. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Notes *(continued)*

Turnover

(a) By geographical market:

	1998 £'000	1997 £'000
United Kingdom	79,448	65,880
Rest of the world	1	2
	79,449	65,882

(b) By activity

	1998 £'000	1997 £'000
Homecare and toy retailing	79,347	65,882
Preparation and sale of computer programs and sale of computer equipment	102	-
	79,449	65,882

Operating profit

	1998 £'000	1997 £'000
Operating profit of the group is stated after charging		
Auditors' remuneration:		
Audit work	26	16
Non-audit work	32	28
Payments under operating leases:		
Hire of plant and equipment	337	383
Other	4,089	3,761
Depreciation and other amounts written off tangible fixed assets	1,165	951
Amortisation of goodwill	73	-

Notes *(continued)*

3 **Operating profit** *(continued)*

) **Reconciliation of operating profit**

	Continuing operations £000	Acquisitions £000	**1998 Total £000**	1997 Total £000
Turnover	79,347	102	**79,449**	65,882
Cost of sales	(52,815)	(26)	**(52,841)**	(44,613)
Gross profit	26,532	76	**26,608**	21,269
Distribution costs	(18,497)	-	**(18,497)**	(15,209)
Administrative expenses	(5,267)	(144)	**(5,411)**	(3,749)
Operating profit	2,768	(68)	**2,700**	2,311

Remuneration of directors

	1998 £000	1997 £000
Directors' emoluments	**443**	204
Company contributions to money purchase schemes	**130**	23
	573	227

The emoluments of the highest paid director were £197,000 *(1997: £80,000),* and company pension contributions of £33,000 *(1997: £13,000)* were made to a money purchase scheme on his behalf.

Number of directors who are:

	1998	**Number** 1997
Members of money purchase pension schemes	**2**	2

Notes *(continued)*

Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1998	1997
Administration	**106**	79
Selling and distribution	**1,315**	1,099
	1,421	1,178

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	**11,756**	8,863
Social security costs	**877**	621
Other pension costs	**332**	81
	12,965	9,565

Interest payable

	1998	1997
	£'000	£'000
Bank loans and overdrafts	**133**	59
Other loans	**-**	188
Finance lease	**10**	23
	143	270

Tax on profit on ordinary activities

	1998	1997
	£'000	£'000
Tax charge based on the profit for the year on ordinary activities:		
Corporation tax on profit at 31% *(1997: 31.5%)*	**853**	857
Over provision in previous year	**(82)**	58
Deferred taxation movement:		
- Current year	**(23)**	(50)
- Prior year	**65**	(24)
Overseas taxation	**110**	16
	923	857

Notes *(continued)*

Goodwill

Goodwill of £73,000 arose on acquisitions during the year and was amortised fully during the period under review.

Tangible fixed assets

	Freehold land and buildings £'000	Short leasehold property £'000	Fixtures and fittings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Group						
Cost						
At 1 January 1998	493	1,803	1,227	3,132	441	7,096
Subsidiaries acquired	6	-	-	80	-	86
Additions	-	290	272	510	143	1,215
Disposals	-	-	-	(25)	(71)	(96)
Group transfers	-	-	728	(728)	-	-
At 31 December 1998	499	2,093	2,227	2,969	513	8,301
Depreciation						
At 1 January 1998	-	425	763	1,143	161	2,492
Subsidiaries acquired	3	-	-	66	-	69
Charged in year	1	213	356	481	114	1,165
Disposals	-	-	-	(12)	(51)	(63)
Group transfers	-	-	177	(177)	-	-
At 31 December 1998	4	638	1,296	1,501	224	3,663
Net book value						
At 31 December 1998	**495**	**1,455**	**931**	**1,468**	**289**	**4,638**
At 31 December 1997	493	1,378	464	1,989	280	4,604

The net book value of assets held under finance leases at the year end was £Nil *(1997: £784,000)* and the depreciation charged for the year on those assets was £35,000 *(1997: £151,000)*.

Notes *(continued)*

Tangible fixed assets *(continued)*

	Freehold land and buildings £'000	Short leasehold property £'000	Fixtures and fittings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Company						
Cost						
At 1 January 1998	493	1,803	1,227	3,116	441	7,080
Additions	-	274	287	493	143	1,197
Disposals	-	-	-	-	(71)	(71)
Transfers	-	-	728	(728)	-	-
At 31 December 1998	493	2,077	2,242	2,881	513	8,206
Depreciation						
At 1 January 1998	-	425	763	1,140	161	2,489
Charged in year	-	213	356	469	114	1,152
Disposals	-	-	-	-	(51)	(51)
Transfers	-	-	177	(177)	-	-
At 31 December 1998	-	638	1,296	1,432	224	3,590
Net book value						
At 31 December 1998	**493**	**1,439**	**946**	**1,449**	**289**	**4,616**
At 31 December 1997	493	1,378	464	1,976	280	4,591

The net book value of assets held under finance leases at the year end was £Nil *(1997: £784,000)* and the depreciation charged for the year on those assets was £35,000 *(1997: £151,000).*

Investments

	Shares in subsidiaries undertakings £
At 1 January 1998	**178**
Additions	**167,751**
Less: provision against investment	**(100)**
At 31 December 1998	**167,829**

Notes *(continued)*

10 Investments *(continued)*

The subsidiary undertakings are:

	Nature of business	Percentage of ordinary shares held
Poundland Limited, a company registered in Great Britain, which ceased to trade on 31 July 1993	Homeware and toy retailer	100%
ISE Far East Limited (formerly Calasca Limited), a company registered in Hong Kong, which was incorporated on 11 December 1996.	Homeware and toy distributor	100%
Sheptonview Limited, a company registered in Great Britain, which ceased to trade on 31 December 1994.	Homeware and toy retailer	100%
M&O Business Systems Limited (formerly M&O Business Systems & Software (Oxford) Limited), a company registered in Great Britain	Sale of computer equipment and computer programmes	75%

Acquisition of subsidiaries

On 1 July 1998 75% of the share capital of M&O Business Systems Limited was acquired. On 28 September 1998 the entire share capital of Sheptonview Limited was acquired. Both acquisitions have been accounted for by the acquisition method of accounting.

	M&O Business Systems Limited	Sheptonview Limited
	Book and fair value £000	Book and fair value £000
Net assets		
Tangible fixed assets	17	-
Stock	6	-
Debtors	60	20
Cash at bank and in hand	(8)	96
Creditors	(78)	(19)
	(3)	97
Minority interest	1	-
	(2)	97
Goodwill on acquisition	60	13
	58	110
Satisfied by;		
Cash paid:	58	110

Notes *(continued)*

Stocks

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Goods purchased for resale	**5,209**	4,943	**5,243**	4,974

Debtors

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Trade debtors	**745**	133	**726**	133
Amounts owed by group undertakings	**-**	-	**104**	55
Other debtors	**128**	31	**91**	31
Prepayments and accrued income	**2,003**	1,588	**1,988**	1,586
	2,876	1,752	**2,909**	1,805

Creditors: amounts falling due within one year

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Bank loan	**23**	23	**23**	23
Obligations under finance leases	**-**	144	**-**	144
Trade creditors	**5,773**	7,068	**5,597**	7,068
Amounts owed to group undertakings	**-**	-	**468**	-
Corporation tax	**1,030**	917	**917**	901
Other taxation and social security	**1,741**	1,276	**1,726**	1,276
Other creditors	**197**	109	**164**	109
Accruals and deferred income	**1,679**	1,084	**1,677**	1,082
	10,443	10,621	**10,572**	10,603

Notes *(continued)*

Creditors: amounts falling due after more than one year

		Group		Company
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Bank loan	**251**	275	**251**	275
Secured loan	**-**	257	**-**	257
Amounts owed to group companies	**-**	-	**80**	-
Accruals and deferred income	**157**	188	**157**	188
	408	720	**488**	720

The secured loan was repaid during the year. The bank loan is secured by a charge on the group's freeehold property located in Hull.

Analysis of Borrowings

Group and Company

		1998		1997
	Loans	**Finance leases**	Loans	Finance leases
	£000	**£000**		£000
Amounts payable within 1 year	**23**	**-**	23	144
Between 1 and 2 years	**23**	**-**	23	-
Between 2 and 5 years	**228**	**-**	509	-
	274	**-**	555	144

Notes *(continued)*

Provisions for liabilities and charges

Full provision has been made under the liability method for taxation deferred by accelerated capital allowances and other timing differences. The amounts involved are as follows:

Group

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 1998	260	(44)	216
Transfer from profit and loss account	9	33	42
At 31 December 1998	269	(11)	258

Company

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 1998	260	(34)	226
Transfer from profit and loss account	9	36	45
At 31 December 1998	269	2	271

Called up share capital

	1998 £	1997 £
Authorised:		
500,000 ordinary shares of £1 each	**500,000**	500,000
Allotted:		
100 ordinary shares of £1 each fully paid	**100**	100
49,900 ordinary shares of £1 each partly paid	**12,475**	12,475
	12,575	12,575

Notes *(continued)*

7 Reserves

	Profit and loss account	
	Group	**Company**
	1998	**1998**
	£'000	**£'000**
At 1 January 1998	**3,080**	**3,015**
Retained profit for the financial year	**1,654**	**1,511**
Exchange difference	**(1)**	**-**
At 31 December 1998	**4,733**	**4,526**

Reconciliation of movements in shareholders' funds

	Group		Company	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Profit for the financial year	**1,654**	1,222	**1,511**	1,157
Other recognised losses relating to the year	**(1)**	-	**-**	-
Opening shareholders' funds	**3,093**	1,871	**3,028**	1,871
Closing shareholders' funds	**4,746**	3,093	**4,539**	3,028

Minority interests

	Group	Group
	1998	1997
	£000	£000
At beginning of year	**-**	-
Acquisition of subsidiary undertakings	**(1)**	-
Retained profit for year	**4**	-
At end of year	**3**	-

All minority interests are attributable to equity interests.

Notes *(continued)*

Commitments

Commitments in respect of non-cancellable operating lease rentals to be paid during the next year are:

Group	**Land and buildings**		**Other**	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Operating leases which expire:				
- within one year	**260**	127	**163**	23
- within two to five years	**261**	488	**262**	265
- after five years	**3,580**	1,819	**-**	-
	4,101	2,434	**425**	288

Company	**Land and buildings**		**Other**	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Operating leases which expire:				
- within one year	**260**	127	**163**	23
- within two to five years	**261**	475	**262**	265
- after five years	**3,572**	1,819	**-**	-
	4,093	2,421	**425**	288

At 31 December 1998, contracted capital expenditure for which no provision has been made in the financial statements amounted to £30,000 *(1997: £Nil)*.

Reconciliation of operating profit to net cash inflow from operating activities

Group

	1998	1997
	£'000	£'000
Operating profit	**2,700**	2,311
Depreciation charge	**1,165**	951
Amortisation of goodwill	**73**	-
Profit on disposal of fixed assets	**(3)**	(6)
Increase in stocks	**(260)**	(565)
(Increase)/decrease in debtors	**(1,043)**	509
(Decrease)/increase in creditors	**(277)**	387
Net cash inflow from operating activities	**2,355**	3,587

Notes *(continued)*

Gross cash flows

	1998		1997	
	£'000	**£'000**	£'000	£'000
Returns on investment and servicing of finance				
Interest received	**24**		38	
Interest paid	**(133)**		(247)	
Interest element of finance lease payments	**(10)**		(23)	
		(119)		(232)
Capital expenditure				
Payments to acquire tangible fixed assets	**(1,214)**		(1,113)	
Proceeds on disposal of tangible fixed assets	**36**		33	
		(1,178)		(1,080)
Acquisitions				
Purchase of subsidiary undertakings	**(168)**		-	
Cash acquired with subsidiaries	**88**		-	
		(80)		-
Financing				
Mortgage payments	**(24)**		(23)	
Decrease in loan	**(257)**		(107)	
Capital element of finance lease payments	**(144)**		(211)	
		(425)		(341)

Analysis of changes in net funds

	At 1 January 1998 £'000	Cash flows £'000	At 31 December 1998 £'000
Cash at bank and in hand	3,351	(216)	**3,135**
Mortgage	(298)	24	**(274)**
Finance leases	(144)	144	**-**
Secured loan	(257)	257	**-**
	2,652	209	**2,861**

Notes *(continued)*

Related party transactions

In an arm's length transaction, the company incurred fees during the year in respect of consultancy services provided by Mr K Smith, the majority shareholder, amounting to £Nil *(1997: £32,000)*. At the year end, the balance outstanding in respect of such fees was £Nil *(1997: £56,000)*.

During the year loans were advanced by the Company to Messrs SK Smith and DP Dodd. These loans were fully repaid prior to the year end. The maximum amount owed by Messrs SK Smith and DP Dodd during the year was £50,550 and £40,022 respectively.

Four year trading summary of The ISE Group plc

	1998	1997	1996	1995
	£'000	£'000	£'000	£'000
Turnover	**79,449**	65,882	56,623	37,364
Year on year increase %	**20.59%**	16.35%	51.54%	59.43%
Gross profit	**26,608**	21,269	16,942	10,983
%	**33.49%**	32.28%	29.92%	29.39%
Operating profit	**2,700**	2,311	1,268	494
Interest	**(119)**	(232)	(167)	(90)
Interest cover	**22.69**	10.0	7.6	5.5
Pre tax profit	**2,581**	2,079	1,101	404
%	**3.25%**	3.16%	1.94%	1.08%
Net assets	**4,749**	3,093	1,871	1,255
Year on year increase %	**53.54%**	65.31%	49.08%	22.92%
Number of stores trading at year end	**49**	44	42	33